

Message Text

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FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 125831 TOSEC 020127

LIMDIS

E.O. 11652: GDS

TAGS:EFIN

SUBJECT:ACTION MEMORANDUM: IEA/OECD PROPOSALS

(S/S NO. 7;10984)

FOR THE SECRETARY THROUGH ENDERS FROM KATZ

REF: STATE 124619

1. WE PROPOSE THE FOLLOWING CABLE TO BE SENT TO LDC AND OPEC POSTS (WITH INFO COPIES TO OECD POSTS) INSTRUCTING THEM ON APPROACH TO BE MADE TO HOST GOVERNMENTS CONCERNING THE SECRETARY'S OECD AND IEA INITIATIVES ON RELATIONS WITH THE DEVELOPING COUNTRIES. THIS CABLE WOULD SUPPLEMENT REF-TEL WHICH FOCUSED ON INITIATIVE TO RESUME PRODUCER/CONSUMER DIALOGUE. YOUR COMMENTS AND/OR APPROVAL REQUESTED.

2. QUOTE: SECRETARY KISSINGER'S SPEECH AT IEA AND OECD MINISTERIALS (MAY 27-28) EMPHASIZED PROPOSALS AIMED AT IMPROVING RELATIONSHIPS WITH DEVELOPING COUNTRIES. ACTION POSTS SHOULD SEEK EARLY APPOINTMENT WITH FOREIGN MINISTER OR OTHER APPROPRIATE OFFICIALS, LEAVE COPIES OF THE SECRETARY'S SPEECHES BEING TRANSMITTED IN SEPTTEL, AND EXPLAIN US VIEWPOINT AND PROPOSALS DRAWING ON PARAS
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BELOW. REPRESENTATIONS SHOULD A) STRESS IMPORTANCE WE ATTACH TO THE SECRETARY'S PROPOSALS AS MEANS OF BASING RELATIONSHIP BETWEEN DEVELOPED AND DEVELOPING NATIONS ON A

SPIRIT OF COOPERATION AND GOOD WILL, AND B) SEEK HOST
GOVERNMENT SUPPORT FOR US INITIATIVES. ACTION POSTS FOR

REFTEL HAVE ALREADY RECEIVED INSTRUCTIONS TO MAKE
REPRESENTATIONS ON INITIATIVE TO RESUME PRODUCER/CONSUMER
DIALOGUE. IF THOSE REPRESENTATIONS NOT ALREADY MADE, THEY
SHOULD BE COMBINED WITH PRESENT INSTRUCTIONS. OTHERWISE,
ADDITIONAL APPOINTMENTS SHOULD BE SOUGHT TO COVER NEW
GROUND INCLUDED BELOW.

3. SECRETARY KISSINGER RECENTLY PUT FORWARD SERIES OF
PROPOSALS TO MINISTERIAL MEETINGS OF INDUSTRIALIZED
COUNTRIES IN IEA AND OECD. THEY ENCOMPASS THE AREAS OF
CONSUMER/PRODUCER RELATIONS, ECONOMIC GROWTH, RAW
MATERIALS AND TRADE AND FINANCE. THEY ARE DESIGNED TO
HELP MEET THE CHALLENGE TO ALL NATIONS TO IMPROVE THE
SYSTEM OF INTERNATIONAL ECONOMIC COOPERATION, AND THUS
PROVIDE GREATER OPPORTUNITY FOR THE DEVELOPING COUNTRIES
TO SHARE BOTH THE BENEFITS AND RESPONSIBILITIES OF A
GROWING WORLD ECONOMY. WE RECOGNIZE THAT, AS THE SECRETARY
STATED, "AN INTERNATIONAL SYSTEM WILL BE STABLE ONLY SO
LONG AS ITS ECONOMIC BENEFITS ARE WIDELY SHARED AND ITS
ARRANGEMENTS ARE PERCEIVED AS JUST." WITH THESE PRO-
POSALS WE HOPE TO BE ABLE TO TURN AWAY FROM THE ATMOSPHERE
OF CONFRONTATION WHICH UNFORTUNATELY HAS BEEN DEVELOPING,
AND MOVE TOWARDS BETTER COOPERATION BETWEEN INDUSTRIALIZED
AND DEVELOPING COUNTRIES. IT IS IMPOSSIBLE TO HAVE
CONFRONTATION AND COOPERATION SIMULTANEOUSLY. ATTEMPTS
TO RESOLVE THE TERRIBLY COMPLEX ISSUES BEFORE US
THROUGH TESTS OF STRENGTH WOULD MEAN THE POOREST AND MOST
DISADVANTAGED WOULD PAY THE HIGHEST PRICE. ON THE OTHER
HAND, SUCCESSFUL COLLABORATION COULD USHER IN A NEW
ERA OF ECONOMIC ADVANCE AND HUMAN PROGRESS.

4. CONSUMER/PRODUCER RELATIONS. IN HIS STATEMENT TO THE
IEA THE SECRETARY DISCUSSED OUR PROPOSALS FOR ACHIEVING
A SUCCESSFUL MULTILATERAL ENERGY DIALOGUE. THESE PRO-
POSALS REFLECT OUR EVOLVING ATTITUDES TOWARDS RAW
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MATERIALS AND OTHER ISSUES BETWEEN LDCS AND DCS, AND OUR
REALIZATION THAT THE DIALOGUE BETWEEN OIL PRODUCERS AND
CONSUMERS COULD NOT PROGRESS UNLESS IT WERE BROADENED TO
ADDRESS THE ENTIRE RANGE OF RELATIONSHIPS BETWEEN
DEVELOPED AND DEVELOPING COUNTRIES. WE BELIEVE THAT THE
FIRST STEP WOULD BE TO RECONVENE, WITHIN THE NEXT MONTH,
THE PREPARATORY MEETING FOR A DIALOGUE BETWEEN OIL
PRODUCERS AND CONSUMERS IN THE SAME FORMAT AS BEFORE.
THE SECOND STEP WOULD BE TO CREATE A NUMBER OF COMMISSIONS
TO DEAL WITH THE CRITICAL ISSUES IN RELATIONSHIPS BETWEEN
DEVELOPING AND DEVELOPED COUNTRIES. COMMISSIONS MIGHT BE

SET UP FOR ENERGY, FOR THE PROBLEMS OF THE MOST SERIOUSLY AFFECTED COUNTRIES, AND FOR PROBLEMS OF RAW MATERIALS. THE ROLE OF THE LATTER TWO COMMISSIONS WOULD BE ESSENTIALLY TO MONITOR, TO SUPPLEMENT, AND TO ORIENT THE ALREADY SUBSTANTIAL WORK BEING DONE IN THE FIELD. IN THE CASE OF ENERGY, SINCE THERE IS NO EXISTING INTERNATIONAL ORGANIZATION OF PRODUCERS AND CONSUMERS IN WHICH THE BASIC QUESTIONS ARE BEING DEALT WITH, THE COMMISSION SHOULD ALSO FUNCTION AS A MEANS OF ADDRESSING AND RESOLVING THE UNDERLYING SUBSTANTIVE ISSUES.

5. ECONOMIC GROWTH. THE SECRETARY BEGAN HIS OECD SPEECH BY EMPHASIZING THAT ECONOMIC EXPANSION IN THE INDUSTRIAL WORLD AND ECONOMIC COOPERATION WITH THE LESS DEVELOPED COUNTRIES GO HAND IN HAND. THIS IS SO BECAUSE ONLY ECONOMIC GROWTH CAN SATISFY COMPETING DEMANDS FOR MORE INCOME AND MORE OPPORTUNITY WITHIN AND AMONG COUNTRIES. AN EXPANDING WORLD ECONOMY IS ESSENTIAL TO DEVELOPMENT SINCE IT ASSURES GROWING MARKETS FOR LDC RAW MATERIALS, MANUFACTURERS AND AGRICULTURAL PRODUCTS AND PROVIDES THE BEST FRAMEWORK FOR ACCOMMODATION ON ISSUES OF FOOD, ENERGY, RAW MATERIALS, TRADE AND INVESTMENT AND FOR AID PROGRAMS. THE SECRETARY CALLED ON INDUSTRIAL NATIONS TO DO THREE THINGS TO ACHIEVE LONGTERM, STABLE GROWTH:

A) REBUILD CONFIDENCE THROUGH DECISIVE, COORDINATED AND MUTALLY SUPPORTIVE ACTIONS TO PROMOTE SUSTAINED ECONOMIC EXPANSION IN THE SHORT RUN.

B) COLLABORATE TO SUSTAIN THE GROWTH OF INTERNATIONAL TRADE AND INVESTMENT AND RENEW THE OECD PLEDGE NOT TO RESORT TO RESTRICTIVE TRADE MEASURES TO COVER DEFICITS
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RESULTING FROM CURRENT WORLD ECONOMIC DIFFICULTIES.

C) DEVELOP LONGER-TERM GROWTH STRATEGIES, BEGINNING WITH THE CREATION OF A SPECIAL GROUP OF DISTINGUISHED ECONOMISTS BOTH IN AND OUT OF GOVERNMENT TO IDENTIFY MEASURES OF OECD NATIONS CAN ADOPT IN THIS FIELD.

6. FOOD. IN THE FOOD AREA, THE SECRETARY STRESSED THAT SHORT-TERM FOOD AID TO FEED VICTIMS OF POVERTY AND NATURAL DISASTER IS AN INTERNATIONAL RESPONSIBILITY TO BE SHARED BY ALL FINANCIALLY ABLE COUNTRIES. THE U.S. HAS PLEDGED TO MAKE EVERY EFFORT TO PROVIDE AT LEAST 4 MILLION TONS OF SUCH AID ANNUALLY. A LONG-TERM SOLUTION TO THE FOOD CRISIS REQUIRES MORE HOWEVER. WORLD FOOD PRODUCTION CAPACITY MUST BE GREATLY INCREASED ESPECIALLY IN THE DEVELOPING COUNTRIES. TO THIS END THE U.S. SUPPORTS TWO NEW MECHANISMS: A) WE WILL PARTICIPATE IN THE CREATION AN INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT. IT WILL BRING TOGETHER ALL NATIONS PREPARED TO CONTRIBUTE ADDITIONAL RESOURCES--

WHICH WE BELIEVE SHOULD TOTAL 1 BILLION DOLS A YEAR --
TO AGRICULTURAL DEVELOPMENT. B) THE LINK BETWEEN FUND-
ING AND EFFECTIVE AGRICULTURAL DEVELOPMENT STRATEGIES
SHOULD BE PROVIDED BY THE CONSULTATIVE GROUP ON FOOD

PRODUCTION AND INVESTMENT WHICH THE WORLD FOOD CONFERENCE
ORGANIZED. IT SHOULD BE THE CENTRAL MECHANISM FOR COOP-
ERATION AMONG TRADITIONAL FOOD DONORS, NEW DONORS AND THE
DEVELOPING COUNTRIES. A FINAL CRUCIAL ELEMENT IN A
LONG-TERM FOOD PRODUCTION STRATEGY IS A SYSTEM OF
NATIONALLY HELD GRAIN RESERVES. WE ARE PREPARED TO BEGIN
NEGOTIATING IMMEDIATELY ON SUCH A SYSTEM AND WOULD HOPE
THAT IS OUTLINES COULD BE AGREED BEFORE THE END OF THE
YEAR. THE BASIC PRINCIPLES WHICH THE U.S. HAS SUGGESTED
A) A FAIR ALLOCATION OF RESERVE HOLDINGS TAKING INTO
ACCOUNT WEALTH, PRODUCTIVE CAPACITY AND VOLUME OF TRADE
OF EXPORTERS AND IMPORTERS; B) AGREED RULES OR GUIDELINES
TO ENCOURAGE RESERVE BUILDUP AT TIMES OF GOOD HARVEST,
REGULATE DRAWDOWN IN TIMES OF SHORTFALL; C) FREEDOM
FOR PARTICIPATING COUNTRIES TO DETERMINE HOW TO BUILD UP
AND MAINTAIN RESERVES AND D) ASSURED ACCESS TO SUPPLIES
BY PARTICIPANTS WITH SPECIAL PROVISION FOR POOREST
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COUNTRIES.

7. COMMODITIES. THE SECRETARY NOTED THAT THE TIME IS
RIPE FOR A DETAILED LOOK AT PROBLEMS OF COMMODITY TRADE.
THE CURRENT SYSTEM IS PLAGUED BY VOLATILE PRICES,
DISRUPTION OF SUPPLIES, INVESTMENT DISPUTES AND INCREAS-
ING HOSTILITY TO PRIVATE CAPITAL INVESTMENT. WE NEED TO
SEARCH COOPERATIVELY FOR SOLUTIONS THAT WILL BENEFIT
PRODUCERS AND CONSUMERS ALIKE. UNFORTUNATELY, THE DEBATE
IS BECOMING MORE POLARIZED AND HAS ALREADY DAMAGED OTHER
EFFORTS FOR INTERNATIONAL COOPERATION. THE U.S. HAS
PROPOSED THAT (1) NEW RULES AND PROCEDURES FOR ACCESS TO
MARKETS AND SUPPLIES BE NEGOTIATED IN THE MTN NOW TAKING
PLACE IN GENEVA; (2) CONSUMERS AND PRODUCERS JOINTLY
DISCUSS ARRANGEMENTS FOR INDIVIDUAL COMMODITIES ON A
CASE-BY-CASE BASIS; (3) THE WORLD BANK INCREASE ITS
FINANCING OF RESOURCE INVESTMENTS AND EXPLORE NEW
WAYS OF COMBINING ITS FINANCING WITH PRIVATE MANAGE-
MENT, SKILLS, TECHNOLOGY, AND CAPITAL; AND (4) WE REVIEW
VARIOUS MECHANISMS, NOTABLY THAT IN THE IMF, FOR STABILI-
ZATION OF EARNINGS TO PROTECT THE DEVELOPING COUNTRIES
AGAINST EXCESSIVE FLUCTUATIONS IN EXPORT INCOME.

8. TRADE AND FINANCE. THE SECRETARY ALSO URGED IMPROVED
COOPERATION IN THE TRADITIONAL AREAS OF TRADE AND
FINANCE. HE EMPHASIZED THE NEED FOR EXPANDING MARKETS
FOR THE MANUFACTURED GOODS OF THE DEVELOPING COUNTRIES.
HE ALSO PLACED SPECIAL EMPHASIS ON THE SERIOUS NEEDS OF

THE POOREST COUNTRIES FOR ADDITIONAL FINANCIAL HELP. WE
THEREFORE SUPPORT THE CREATION BY 1976 OF A SPECIAL IMF-
ADMINISTERED TRUST FUND OF UP TO 2 BILLION DOLLS TO PRO-
VIDE HIGHLY CONCESSIONAL ASSISTANCE TO THE POOREST,

HARDEST HIT LDCS. WE HAVE PROPOSED THAT FUNDING FOR
THE TRUST FUND BE DERIVED ABOUT EQUALLY FROM THE USE
OF A PORTION OF GOLD NOW HELD BY THE IMF AND FROM
NATIONAL CONTRIBUTIONS ESPECIALLY FROM OIL PRODUCERS.
END QUOTE.

APPROVE APPROVE WITH CHANGES OTHER

CLEARED BY EB, KATZ AND S, COVEY.

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